

City of Dearborn, Michigan

**Federal Awards
Supplemental Information
June 30, 2006**

City of Dearborn, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Dearborn, Michigan

We have audited the basic financial statements of the City of Dearborn, Michigan for the year ended June 30, 2006 and have issued our report thereon dated October 6, 2006. Those basic financial statements are the responsibility of the management of the City of Dearborn, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Dearborn, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 6, 2006

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Dearborn, Michigan

We have audited the financial statements of the City of Dearborn, Michigan as of and for the year ended June 30, 2006 and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dearborn, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dearborn, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and
Members of the City Council
City of Dearborn, Michigan

This report is intended solely for the information and use of the finance committee, city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 6, 2006

Report on Compliance with Requirements Applicable to Each Major
Program and on Internal Control Over Compliance in Accordance
with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Dearborn, Michigan

Compliance

We have audited the compliance of the City of Dearborn, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The major federal programs of the City of Dearborn, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Dearborn, Michigan's management. Our responsibility is to express an opinion on the City of Dearborn, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Dearborn, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Dearborn, Michigan's compliance with those requirements.

In our opinion, the City of Dearborn, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

To the Honorable Mayor and
Members of the City Council
City of Dearborn, Michigan

Internal Control Over Compliance

The management of the City of Dearborn, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Dearborn, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the finance committee, city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 6, 2006

City of Dearborn, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Energy - Passed through Family Independence Agency - Weatherization Program	81.042	\$ 81,703
U.S. Department of Health and Human Services - Passed through Family Independence Agency - Home Weatherization Program	93.568	41,142
U.S. Department of Housing and Urban Development:		
Direct programs:		
Community Development Block Grant	14.218	3,752,075
Emergency Shelter Grant	14.231	80,989
Passed through Michigan State Housing Development Authority - Home Investment Partnerships Program - Home Resource Fund	14.239	<u>111,305</u>
Total U.S. Department of Housing and Urban Development		3,944,369
U.S. Environmental Protection Agency:		
Direct program - Brownfield Revolving Loan	66.811	480,000
Passed through County of Wayne, Michigan:		
Rouge River National Demonstration - A (Original grant)	66.606	7,525,568
Rouge River National Demonstration - A (Subgrant)	66.606	693,810
Passed through Michigan Department of Environmental Quality:		
State Revolving Fund Loan - Combined Sewer Overflow Phase A	66.458	4,861,530
State Revolving Fund Loan - East Dearborn CSO Control Program	66.458	<u>3,013,148</u>
Total U.S. Environmental Protection Agency		16,574,056
Federal Transit Administration - Passed through Michigan Department of Transportation - Rail Passenger Station Development Grant	20.500	7,591
Federal Emergency Management Agency:		
Direct program - Assistance to Firefighters Grant	97.044	56,000
Passed through Michigan Department of State Police:		
Civil Preparedness Program	97.042	48,076
Hurricane Katrina Assistance Reimbursement	97.Unknown	<u>54,668</u>
Total Federal Emergency Management Agency		158,744

City of Dearborn, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Justice:		
Direct programs:		
Local Law Enforcement Block Grant	16.592	\$ 100,681
Bullet Proof Vest Program	16.607	13,196
COPS MORE Technology Grant	16.710	52,138
Equitable Sharing of Federally Forfeited Property	16.000	618,539
Passed through Department of Community Health, Office of Drug Control		
Policy - Brynne Memorial Formula Grant Program	16.579	35,198
Passed through Family Independence Agency - Juvenile Accountability		
Block Grant	16.523	10,324
Passed through Michigan Department of State Police:		
2003 State Homeland Security Grant Program Pt. II Training Grant	97.004	951
2004 State Homeland Security Grant	97.004	537,557
2005 Buffer Zone Protection Program	97.078	49,435
2005 Citizen Corps (CERT) Grant	97.067	9,276
Passed through Wayne County Sheriff Department - 2005 Edward Byrne		
Memorial Justice Assistance Grant Program	16.738	886
Total U.S. Department of Justice		1,428,181
U.S. Department of Transportation:		
Passed through Michigan Department of State Police and Downriver		
Community Conference - Drive Michigan Safely Task Force	20.600	41,163
Passed through Michigan Department of Transportation:		
Improvements - Schaefer Road from Rouge River to Tireman		
(Jobs 43686A, 43687A, 74481A, and 74442A)	20.205	65,983
Resurface - Southfield Service Drive from South City Limits to Rouge		
River (Job 74481A)	20.205	165,540
Resurface - Tireman from Miller Road to City Limits (Job 75535A)	20.205	204,980
Total U.S. Department of Transportation		477,666
Total federal programs		<u>\$ 22,713,452</u>

City of Dearborn, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 5,792,025
Add federal money recorded as a capital contribution from grants on the financial statements	8,219,378
Add federal money recorded as a pass-through activity in Trust and Agency Funds	80,989
Add federal money recorded as a liability (Combined Sewer Overflow Phase A)	7,874,678
Add federal money classified as forfeited revenue	618,539
Add federal revenue classified as miscellaneous revenue on financial statements	158,617
Less revenue for prior year expenditures received in current year	(30,588)
Add interest revenue spent on federal program	1,188
Less MPSC state receivable previously classified as federal	<u>(1,374)</u>

Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 22,713,452</u>
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City of Dearborn, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Dearborn, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Summary of Noncash Assistance - The grantee received the following noncash assistance during the year ended June 30, 2006 that is not included on the schedule of expenditures of federal awards:

Federal Program	CFDA Number	Description	Amount
U.S. Department of Agriculture	10.569	Emergency Food Distribution Program	\$ 6,921
U.S. Department of Justice	97.004	2003 State Homeland Security Grant Program Pt. II	36,450

Note 3 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 86,263
Emergency Shelter Grant	14.231	73,170

City of Dearborn, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
66.606	U.S. Environmental Protection Agency - Rouge River Grants
66.458	U.S. Environmental Protection Agency - State Revolving Fund Loans

Dollar threshold used to distinguish between type A and type B programs: \$681,404

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Dearborn, Michigan

Schedule of Findings and Questioned Costs (Continued) **Year Ended June 30, 2006**

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

City of Dearborn, Michigan

Schedule of Prior Year Audit Findings Year Ended June 30, 2006

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Finding</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Comments</u>
2005	05-01	The City failed to review contractor payroll submissions and certifications on a timely basis, ascertain that the laborers and operators were paid the prevailing wage rate, and perform and reconcile job site interviews to the certified payroll list according to Davis Bacon requirements.	66.606	None	The City began performing timely review of contractor's payroll submission; including performing job site interviews and agreeing the certified payroll listing to prevailing wage rates as required by Davis Bacon.



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October 6, 2006

To the Honorable Mayor and Members
of the City Council
City of Dearborn
City Hall Annex West
4500 Maple
Dearborn, MI 48126

Dear Mayor and Council Members:

We recently completed our audit of the basic financial statements of the City of Dearborn for the year ended June 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Internal Control Items

Parking System

In the current year, the City implemented a paid parking system throughout the city. As with any system that involves the remote collection of cash, there is an inherent risk of theft involved with the collection of coins from the parking meters. While the benefit of implementing any internal control should be weighed against the cost of the control, the City may want to consider ways to strengthen controls in this area. Procedures might include selection of specific meters for random testing, rotation of collection routes and personnel, and analytical review of collection trends. We would be happy to assist management in further investigating possible cost-effective internal controls over the parking system.

Pools

In addition to our normal audit procedures, we continue to select one remote cash collection location each year and perform additional procedures related to cash handling at that location. This year, the Pools were selected as the location to be tested. Our procedures include review of written policies regarding cash collections, interviews with personnel involved in cash collections, and performance of tests of specific cash transactions. As a result of our procedures, we have made recommendations to management related to improvements to internal controls for their consideration. Please keep in mind, internal controls should be implemented where the benefit of the control exceeds the cost.

A member of



A worldwide association of independent accounting firms

October 6, 2006

District Court

During our testing at the District Court, we continued to note the bond account detail ledger did not agree to the general ledger balance. While the District Court staff has made improvements in reconciling the two ledgers during the current year, and the unreconciled difference is smaller, we encourage management to continue working to reconcile the two ledgers on a monthly basis. Maintenance of a subsidiary detail ledger and the monthly reconciliation to a master control account is one of the most basic, but important elements of a system of internal checks and balances.

Internal Audit

We are aware that in the past the City has given consideration to developing an internal audit program. While we recognize that Dearborn, like most communities in Michigan, is currently experiencing the financial challenges of a tough state economy, we encourage management to continue considering the benefits of implementing internal audit functions. While it is likely not practical for a city of Dearborn's size to utilize a full-time internal audit staff, we do believe there are internal audit functions that can be done by existing staff which would be beneficial. For example, a designated finance staff member could do periodic on-site visits to remote cash collection locations to monitor and test cash handling procedures. Sampling of procurement transactions by a staff outside the purchasing department could be done to confirm that city policy is being followed. We would be happy to assist management in further investigating the opportunity for the City to implement selected internal audit procedures.

Operational, Legislative, and Informational Items

Funding of Postemployment Benefit Obligations

We continue to bring to your attention Governmental Accounting Standards Board Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, the City will need to continue to budget only the expected cash payments, whether directly for health insurance premiums or for contributions to a prefunding plan. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in the coming years. The City had an actuarial evaluation performed and has begun setting aside funds for their postemployment benefit obligations. As a result, the City is ahead of most cities in addressing this obligation. A very high percentage of local units are just starting to study their situation. We commend the City on the steps taken and recommend that the City continue its proactive efforts to monitor and fund this expenditure. This statement will be effective July 1, 2007.

October 6, 2006

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. As a result, funding the contribution will actually reduce your long-run cost.

Plante & Moran, PLLC has professionals on staff who are versed in different tools and options available to help employers with postemployment costs. We would be happy to discuss the options further.

911 Revenues

The City has been receiving 911 user charges collected by local phone companies for many years. In the past, the 911 user charge related strictly to land line telephone service (referred to as "wireline"). Recently, all communities began receiving distributions of "wireless" charges. These funds are intended to be used to improve the existing 911 systems so as to allow the tracing of cellular emergency calls. This will require the implementation of global positioning systems (GPS), which will be provided on a region-wide basis, and other advanced technology that the communities will be required to purchase in the upcoming years (such as upgrades to your dispatch system). The funds for these improvements are generated from a specific direct charge on the bills of cellular subscribers. Communities receiving these funds need to account for them in a manner similar to the 911 wireline funds they are currently receiving. The accounting for wireless funds should be maintained separate from the accounting of wireline funds. The revenues collected by the City are subject to very specific spending requirements (more restrictive and different than the "wireline" spending requirements). We would be happy to further discuss with management the potential implications of this change.

Transit Tax

Public Act 175 of 2006 was enacted which extends the previous five-year period allowed to levy taxes for public transportation to 25 years. This extended period provides local governments the ability to take advantage of federal funding that was allocated in 2005's federal transportation reauthorization. Certain federal grant requirements require that communities support a system for at least 25 years. The tax still requires voter approval. We would be happy to further discuss with management the potential implications of this act.

Cost Allocation

State law allows for the City's General Fund to charge Street Funds for reimbursement of administrative costs. The charge must be cost justified and may not exceed 10 percent of Act 51 revenue received. Currently it appears that the Street Funds are paying less than 10 percent of Act 51 revenues in administrative reimbursements. Management should continue to monitor the cost of administration provided by the General Fund to determine if the General Fund has been fully reimbursed the cost of administrative services provided to other funds.

October 6, 2006

State-shared Revenue

This year's budget discussion offered hope of an increase in revenue sharing from the last several years. Revenue sharing was identified as a priority by the Legislature during its initial budget discussions in the winter and several proposals existed which included a blanket increase in revenue sharing of several percent and one which tied the increase in revenue sharing to local governments who demonstrated that they had engaged in service sharing, service consolidation, etc. In the end, the summer budget compromises that occurred in July saw no increases in revenue sharing over the last several years.

With the appropriation reductions to revenue sharing since 2001 (including approximately \$600 million in fiscal year 2006/2007 over amounts calculated by the statutory formula), a number of townships are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing (remember that the constitutional portion cannot be adjusted). Many townships no longer have any statutory revenue sharing remaining as a result. For those communities, because sales tax collections have increased, their revenue sharing is actually increasing because they are now only receiving constitutional revenue sharing. Essentially, the remaining amount of statutory revenue sharing in the State's budget (approximately \$400 million) is supporting cities, villages, and larger, urban townships.

The statutory formula sunsets in 2007, so these remaining statutory revenue-sharing dollars will receive considerable attention next year. Next year, the State will also need to begin dealing with counties again as it relates to statutory revenue sharing. In fiscal year 2004/2005, the State eliminated statutory revenue sharing received by counties (which was approximately \$182 million in fiscal year 2003/2004) and, in return, allowed the counties to advance the levy of their operating millage to July from December. The additional monies from the earlier levy were utilized to create a reserve fund by the counties to replace lost statutory revenue sharing. The expectation is that when the reserve funds at individual counties become depleted, the counties will re-enter the State's statutory revenue-sharing formula. It is very possible that the return of county statutory revenue sharing could be at the expense of city, village, and township statutory revenue sharing. In 2006, the statutory revenue for the City of Dearborn was \$3,060,899; however, the estimated amount the City will receive for the year ending June 30, 2007 is \$2,875,153, a decrease of approximately 6 percent. State-shared revenue accounts for approximately 3 percent of the City's total General Fund revenue.

Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform") on state-shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

October 6, 2006

Over the past several years, the City has been carefully monitoring its fund balance to ensure it remains at a healthy level. For the year ended June 30, 2006, the City budgeted a decrease in the General Fund balance of approximately \$13.8 million. The actual decrease of only \$6.3 million was much better than expected. Additionally, the City's unreserved General Fund balance remains a healthy 24 percent of expenditures. We encourage the City to continue monitoring its fund balance closely as a strong fund balance will ensure the City's health for years to come.

With the uncertainty of state-shared revenues and other economic pressures being felt, cities are being forced to consider all options to increase revenues and/or decrease costs. Additional revenues can be found through a variety of special assessment types, certain special tax levies (some voted, some non-voted), and a variety of enforcement options for penalties and fines. Cost reductions can be found through continued utilization of technology, reduced payroll costs (through job sharing or reduced work days), increased sharing of services with neighboring communities, and deferring to the County for certain services. We would be happy to further discuss such ideas and our experience at other communities with you.

Update on Business Tax Reform (and Its Impact on Local Government)

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget.

Transportation Matters

The State experienced lower than anticipated Act 51 receipts for the State's 2004/2005 and 2005/2006 fiscal years which ended September 30, 2005 and 2006, respectively. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. We encourage the City to continue to be conservative in budgeting Major and Local Street Fund revenue.

To the Honorable Mayor and
Members of the City Council
City of Dearborn

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October 6, 2006

In 2004, the Legislature modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund if a surplus existed. As a condition of the transfer, the amended law requires that certain conditions must be met including the adoption of an asset management process for the Major and Local Street systems. It is important to note that these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. There is also currently legislation proposed that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

As part of the governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which provides approximately \$400 million to be used by local governments as federal match monies on local road projects. The Michigan legislature has passed legislation implementing this program.

Cable Franchise Revenue

The State of Michigan has joined a number of other states considering statewide cable TV franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable TV providers, and also would apply to new providers who would provide service through phone lines. Providers would have to provide customers with local stations and "public access" stations, as is currently required for cable systems. Providers would have to pay a fee of up to 5 percent of gross revenues that would be given to local governments in lieu of the current local cable franchise fees. The legislature has decided to wait until after the November elections to continue discussions regarding this bill. On an annual basis, the City receives approximately \$750,000 from cable franchise fees.

We thank you for the opportunity to serve the City of Dearborn. If you wish to discuss any of the items included in this report or other matters, we would be happy to do so.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver



Christopher S. Jones

October 6, 2006

To the Finance Committee
City of Dearborn
4500 Maple
Dearborn, MI 48126

We have recently completed our audit of the basic financial statements of the City of Dearborn for the year ended June 30, 2006. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the finance committee, mayor and members of the city council, and others within the organization.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

We conducted our audit of the basic financial statements of the City of Dearborn in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Auditor's Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws and Regulations

In the audit process, we gain an understanding of the internal control structure of an entity as well as the laws and regulations having a direct and material effect on the entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of company documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the entity's internal control structure or the entity's compliance with laws and regulations.

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditors' reports who require additional information on internal controls and on compliance with laws and regulations. To meet certain audit report users' needs, laws and regulations often prescribe testing and reporting on internal controls and compliance to supplement the financial statement audit's coverage of these areas. In accordance with regulatory requirements covering federal financial assistance, supplemental testing of and reporting on internal controls and compliance were performed. Nevertheless, even after performing and reporting the results of these additional tests of internal controls and compliance required by laws and regulations, some reasonable needs of report users still may be unmet. We may meet these needs by performing further tests of internal controls and compliance with laws and regulations in either of two ways:

1. Supplemental (or agreed-upon) procedures, or
2. Examination, resulting in an opinion

For the year ended June 30, 2006, we were engaged to perform agreed-upon procedures (Number 1 above) related to lease income received on Quality Inn and final average compensation data used in the City of Dearborn Pension Systems, but were not engaged nor did we perform the additional services listed in Number 2 above.

Significant Accounting Policies

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. We noted the following matter relates to sensitive accounting estimates:

The City settled a significant tax appeal related to personal property tax on utility transmission and distribution property. Under the terms of the settlement, the City will not have to make any payments to the utility companies as long as the City complies with the settlement agreement and utilizes the agreed-upon depreciation tables. The City has recorded a liability of approximately \$886,000 in the Fleet and General Liability Fund. This amount has been recorded net of taxes that would have been owed to the City by the utility companies had the prior depreciation tables been allowed to stand. Beginning in 2007, the City will begin adjusting the liability over the course of the settlement terms.

Significant Audit Adjustments

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, no significant adjustments were made to the financial statements.

Auditing standards also require us to inform you about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of the unrecorded possible financial statement adjustments is included as an attachment to this letter.

Other Information in Documents Containing Audited Financial Statements

When our audit report and the audited financial statements are included in a client document, we have a responsibility to read that document and consider whether anything therein is inconsistent with the information in the audited financial statements. It is our understanding that the audited financial statements are currently not expected to be included in any other document.

Disagreements with Management

There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

Consultation with Other Accountants

To our knowledge, there were no consultations with other accountants.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Leslie J. Pulver". The signature is written in a cursive, flowing style.

Leslie J. Pulver